Great Lakes Paper 1967

ANNUAL REPORT

The front cover picture looks like a great mound of grain but is actually the top of one of the two storage piles of pulpwood chips supplying our kraft pulp mill. The chips are like those shown above; the two hands contain 128 of them, each about one-eighth of an inch thick. Such chips are cut from eight-foot logs like those in the picture on page 15 and are treated by a chemical process to make kraft pulp. The chips reach the piles from the woodroom mentioned on page 15 by a blower system. The piles are side by side on an asphalt base 910 feet long and 332 feet wide. Each pile has a maximum capacity of 40,000 cords and, at this maximum, is about 67 feet high which means a content of astronomical billions of chips. Between the two piles is the circular green structure shown in the cover picture. This is the chip silo, a steel tank of 40 feet inside diameter and 100 feet high from the asphalt base. Its function is to gather chips from the piles pneumatically and convey them by blowers to a huge chemical digester 400 feet away where the process of making kraft pulp begins. Behind the silo in the cover picture is our 300-foot boiler stack. In the foreground a 16-ton caterpillar tractor is levelling the pile. The chip storage piles, the chip silo and the 300-foot stack can be located on a diagram of our mill site property on the inside back cover of this report. They all adjoin our kraft pulp mill.

Five Highlights of '67

1. With the first full year's operation of our kraft pulp mill our total kraft pulp shipments in 1967 were 118,678 tons versus 1966 shipments of 81,463 tons, an increase of 45.7 percent.

2. Despite a small decrease in newsprint shipments due to a strike in Detroit (referred to later) our total shipments to customers in 1967 were at a new high of 493,463 tons and our total dollar sales of $74.3 million (including U.S. exchange) reached another new high, an increase of 8.9 percent over 1966.

3. In spite of these record sales our 1967 operating profit was $17.5 million, 2.1 percent less than 1966, while our net profit in 1967 of $4.2 million was down 23.1 percent from 1966 largely due to increased depreciation and interest charges totalling $2.1 million, an increase of 29 percent over 1966.

4. Other factors restricting our 1967 earnings were a total tax burden of $1.81 a share, comprising income taxes and provincial and municipal charges, as compared with a net profit of $1.17 per share and progressive wage rate increases resulting from labor union agreements and increases in material costs.

5. In 1967 we paid off $4.3 million of long term debt, spent $3.7 million on additions to our fixed assets and improved our working capital by $2.1 million or 33.6 percent.

ON INSIDE PAGES

DIRECTORS & MANAGEMENT	2
LETTER TO SHAREHOLDERS	3
SCOREBOARD COMPARISONS	4
1967 RESULTS IN DETAIL	5
ESTIMATE OF OUTLOOK	13
INDUSTRY REFERENCE DATA	14
FINANCIAL STATEMENTS	16
SUMMARY, LAST 10 YEARS	22
GLOSSARY OF TERMS	24
DIAGRAM OF MILL SITE	25

Dollars in this report are Canadian unless otherwise identified. Amounts per share are based on the total shares issued up to the end of 1967 as reported herein.

BOARD OF DIRECTORS

C. J. CARTER *vice-president, Great Lakes Paper Company*	Fort William	1947
ROSS CLARKSON *honorary chairman, Royal Trust Company*	Montreal	1955
*WILBUR C. COCHRANE *chairman, Cochrane-Dunlop Hardware Ltd.*	Toronto	1942
R. A. DUNN *executive vice-president, Great Lakes Paper Company*	Fort William	1966
*C. J. WARWICK FOX *president, Great Lakes Paper Company*	Fort William	1953
*PERCY M. FOX *chairman of the board, Great Lakes Paper Company*	Montreal	1952
C. J. JEFFERY *vice-president, Great Lakes Paper Company*	Fort William	1947
HON. RAY LAWSON *chairman, Lawson & Jones Limited*	Oakville, Ontario	1936
L. S. MACKERSY *vice-president and director, North American Life Assurance Company*	Toronto	1957
C. BLAKE McDOWELL *secretary, Knight Newspapers Inc.*	Akron, Ohio	1952
*R. G. MEECH, Q.C. *vice-president, Loblaw Groceterias Co. Ltd.*	Toronto	1936
*M. C. G. MEIGHEN *president, Canadian General Investments Ltd.*	Toronto	1947
K. A. MINERS *vice-president, Great Lakes Paper Company*	Fort William	1948
B. H. RIDDER, JR. *vice-president and secretary, Northwest Publications Inc.*	St. Paul, Minnesota	1957
MURRAY D. SEELEY *vice-president, Great Lakes Paper Company*	Fort William	1956
CARL P. SLANE *chairman, Peoria Journal Star*	Peoria, Illinois	1953
RUSS STEWART *vice-president, Field Enterprises Inc., publishers of Chicago Sun-Times and Chicago Daily News*	Chicago	1957
JULES R. TIMMINS *senior partner, J. R. Timmins & Co.*	Montreal	1956

**Members of the Executive Committee.*

Years denote beginning of connection with the company.

MANAGEMENT

PERCY M. FOX, *chairman of the board*	1952
C. J. WARWICK FOX, *president & general manager*	1953
R. A. DUNN, *executive vice-president*	1966
K. A. MINERS, *vice-president, finance*	1948
C. J. JEFFERY, *vice-president, manufacturing*	1947
MURRAY D. SEELEY, *vice-president, woodlands*	1956
C. J. CARTER, *vice-president, engineering*	1947
C. R. CADDO, *secretary*	1929
C. R. BOWLES, *treasurer & comptroller*	1964
D. D. MORROW, *assistant treasurer*	1964
J. K. MARTIN, *assistant secretary*	1967

NEWSPRINT SERVICES

Lake Superior Newsprint Co., Chicago, servicing of newsprint paper contracts: BRUCE FALLOWS, *president;* W. D. FROST, *vice-president.*

SALE OF PULP

Lake Superior Pulp & Paper Inc., Chicago and New York, sale of kraft and sulphite: BRUCE FALLOWS, *president;* R. L. NASH, *vice-president.*

AGENTS AND REGISTRAR

Our transfer agents are The Royal Trust Company, Toronto, Montreal, Calgary and Regina, and the Bank of Montreal Trust Company in New York. Our registrar is The Canada Trust Company, Toronto, Montreal, Calgary and Regina.

Directors listed on opposite page

To the Shareholders

WE MADE GAINS in 1967 despite the fact that our net profit was down 23.1 percent. The first full year of kraft pulp production was mainly responsible for a new high in total shipments. Our newsprint shipments maintained a good level during 1967 but dropped off at the end of the year due to a strike in Detroit affecting the two largest newsprint users in that city. This resulted in a slight decrease in our 1967 newsprint shipments from the previous year. In other gains we reached a new high in total dollar sales in 1967. We also paid off $4.3 million of long term debt.

OUR EARNINGS in 1967 were still affected by the increased charges resulting from our major expansion of 1965-66. The situation will improve with the growth in revenues derived from our expansion and the continuing reduction in debt and resulting interest, as well as depreciation charges. This growth pattern of reduced earnings on completion of an expansion program followed by a rise in our profit has occurred in the past as shown on pages 22-23 of this report. We look forward to continuing growth in the future.

DEPRECIATION and tax deferment continue to be significant items in our financial operation. We have attempted to present a comprehensive explanation of this rather complex matter on page 9. If additional information is required, we shall be glad to provide further details.

RELATIVE COMPARISONS of Canadian, U.S. and world pulp and paper statistics are shown on page 14. Following our experiment last year with a separate industry statistic sheet, we have returned to our former practice this year of including industry information as part of the bound report.

On behalf of the directors,

March 27, 1968

C. J. WARWICK FOX, *president*

REMINDER: YOUR PROXY

Shareholders not attending our annual and general meeting at the Royal York Hotel in Toronto on April 17th, 1968 are entitled and invited to be represented by using the proxy form enclosed with the notice of meeting and explained therein. Your signed proxy form should reach the Toronto address given in the notice not later than April 11th.

Scoreboard

	1967 THIS YEAR	1966 LAST YEAR	1963 5 YEARS AGO	% CHANGE IN 1967 vs 1966	% CHANGE IN 1967 vs 1963
newsprint paper, tons shipped	362,443	374,081	275,686	down 3.1	up 31.5
chemical pulps, tons shipped	131,020	89,322	21,067	up 46.7	up 522.0
total shipments to customers	493,463	463,403	296,753	up 6.5	up 66.3
Canadian dollars, except total sales; 000 omitted					
total sales, defined on page 24	$69,223	$63,857	$39,195	up 8.4	up 76.6
profit on U.S. dollar exchange	5,123	4,383	2,903	up 16.9	up 76.5
sales, in Canadian dollars	$74,346	$68,240	$42,098	up 8.9	up 76.6
operating profit, see page 24	17,511	17,886	13,523	down 2.1	up 29.5
interest charges	1,673	1,478	863	up 13.2	up 93.9
depreciation and depletion	7,506	5,637	3,131	up 33.2	up 139.7
profit before income taxes	8,510	10,924	9,672	down 22.1	down 12.0
provision for income taxes—current	2,385	—	4,862		
deferred	1,915	5,450	138		
	4,300	5,450	5,000	down 21.1	down 14.0
NET PROFIT: total amount	$ 4,210	$ 5,474	$ 4,672	down 23.1	down 9.9
net per share	$1.17	$1.52	$1.30	down 23.1	down 9.9
dividends declared: total	$ 3,602	$ 3,600	$ 2,880	same	up 25.1
amount per share	$1.00	$1.00	$0.80	same	up 25.0
% of net per share	86	66	62	up 30.3	up 38.7
cash flow, defined on page 24	$13,630	$16,562	$ 7,804	down 17.7	up 74.7
working capital at year-end	8,170	6,116	14,233	up 33.6	down 42.6
fixed assets, at year-end	118,656	115,269	63,846	up 2.9	up 85.8
earned surplus, at year-end	25,463	24,855	19,436	up 2.4	up 31.0

Tons and Sales at New High; Profit Held Down

Our 1967 net profit fell short of the amount we earned in 1966, but we made solid gains and can look forward in the long term to continuing growth. The main reasons for lower net profit were the increase in interest and depreciation charges arising from the first full year of operation of our kraft mill, as well as higher wage and material costs. The first two charges can be expected to diminish in due course, as explained on page 9.

Long Term Gains in 1967

In 1967 we achieved notable successes as a result of our first full year of bleached kraft pulp production: in tonnage volume, dollar sales, fixed assets, earned surplus and shareholders' equity. We also paid off $4.3 million of long term debt, spent $3.7 million on our properties and improved our working capital by $2.1 million.

Operating Profit Down Slightly

Notwithstanding a $3.00 increase in the sale price of newsprint and the new high in total sales revenue on page 7, our operating profit for 1967 of $17.5 million was down 2.1 percent from $17.9 million in 1966 because of higher labor and material costs as well as lower pulp prices. The operating profit totals include profit from U.S. dollar exchange of $5.1 million in 1967 and $4.4 million in 1966.

Net Profit Off 23.1 Percent

Profit before taxes in 1967 was $8.5 million against $10.9 million in 1966, a decrease of 22.1 percent, and net profit was down 23.1 percent from 1966. While operating profit was only slightly under the 1966 amount, increased depreciation and interest totalled $9.2 million in 1967 versus $7.1 million in 1966: an increase of $2.1 million or 29 percent.

Total net profit of $4,209,825 in 1967 amounted to $1.17 a share compared with $1.52 in 1966 and $1.58 in 1965. Net profit by quarters, tabulated on page 8, shows that the 1967 decrease began early in the year with the substantially higher interest and depreciation charges arising from the new kraft pulp mill. The progressive wage rate increases, higher material costs and other factors referred to above, also contributed to a reduction in our earnings throughout the year.

Dividends

Since 1964 we have declared dividends of $1.00 a share. This same amount in 1967 represented 86 percent of 1967 net profit against 66 percent in 1966. It is our practice to raise capital for expansion mainly by borrowing and to repay from future earnings resulting from expansion.

Shipments Up 6.5 Percent

Our total shipments to customers in 1967 amounted to 493,463 tons, a 6.5 percent increase over the previous high of 463,403 tons in 1966. The total figure for 1967 comprises 362,443 tons of newsprint and 131,020 tons of chemical pulps. Our inventory changes were negligible.

The gains in total shipments over the previous years resulted from our first complete year of kraft pulp production. Newsprint shipments for 1967 declined 3.1 percent from 1966. This reduction was the direct result of a strike which began in mid-November causing the major newspapers in Detroit to cease publication. In consequence our mill lost two days' newsprint production in November and seven days' in December. Despite that loss our newsprint shipments were favorable compared to total

TOTAL SHIPMENTS UP 6.5% TO NEW HIGH

Our shipments to customers in 1967 totalled 493,463 tons, an increase of 6.5 percent over 1966 and a new high. The increase was due to our gain in shipments of chemical pulps which totalled 131,020 tons versus 89,322 in 1966. Most of this gain was in bleached kraft pulp shipments which, in 1966, did not start until May following completion of our kraft pulp mill. Our newsprint shipments were down 3.1 percent compared with 1966 due mainly to U.S. newspaper strikes; details on page 5. (Total Canadian newsprint shipments to U.S. were down 5.3 percent, with expanded U.S. capacity taking a larger share of that market.) Newsprint in 1967 represented 73.4 percent of our company's total shipments versus 81 percent in 1966 and over 95 percent in 1965. We are now firmly established in the U.S. market in chemical pulps as well as in newsprint. Our newsprint and market pulps in 1967 were shipped to 22 states.

Annual newsprint shipments sometimes exceed production, and vice versa, and the same is true in our pulp operations. These differences between production and shipments are balanced by inventory changes. Over a period they are so negligible that our shipments of chemical pulps recorded below may be taken as representing also our production of these pulps for sale to customers.

	Newsprint Operating Ratio			Products Shipped to Customers		
In Tons	Capacity	Production	Ratio (%)	Newsprint	Chemical Pulps	Total
1958	273,900	207,073	75.6	196,564	46,161	242,725
1959	358,512	221,552	61.8	235,697	36,660	272,357
1960	359,676	268,468	74.6	267,777	22,480	290,257
1961	357,348	268,619	75.2	267,797	23,313	291,110
1962	356,356	269,794	75.7	268,943	21,839	290,782
1963	356,048	272,956	76.7	275,686	21,067	296,753
1964	370,182	296,903	80.2	296,059	16,744	312,803
1965	368,676	336,377	91.2	337,045	15,737	352,782
1966	389,914	374,672	96.1	374,081	89,322	463,403
1967	422,956	363,977	86.1	362,443	131,020	493,463

For 1968 our rated newsprint capacity is 428,868 tons. This is on the basis of continuous operation established in 1967.

Canadian shipments to the U.S., which declined 5.3 percent in 1967.

Our newsprint shipments have more than doubled within the last 12 years. Taking 1955 shipments as 100 our company's newsprint shipments in 1967 were 234 compared with 128 for the Canadian newsprint industry as a whole.

Dollar Sales at New High

As a result of the new high in our 1967 total shipment tonnage, our total dollar sales, defined on page 24, also set a new record in 1967 of $69.2 million as opposed to $63.9 million in 1966, an increase of 8.4 percent. Newsprint sales amounted to $51.1 million in 1967 versus our high in 1966 of $51.5 million, a drop of .8 percent due to the production cutback late in 1967. Sales of chemical pulps were $18.1 million reflecting the first full year of kraft pulp production.

Newsprint sales in 1965 accounted for about 96 percent of our total dollar sales. In 1966, with the introduction of kraft pulp sales towards mid-year, newsprint was 80.6 percent and in 1967 newsprint represented 73.8 percent of total dollar sales. A percentage breakdown of our sales by products through the last ten years is shown at the top of pages 22-23.

Profit Margin Reduced

Our profit margin, which means net profit as a percentage of total sales, stood at 6.1 percent in 1967 against 8.6 percent in 1966. Profit margin through the last ten years is also shown on pages 22-23. Our low point in this period was 5.3 percent in 1959 when net profit was curtailed by increased interest and depreciation charges arising from mill expansion. A similar situation occurred in 1967, which was also a full year following a major expansion of operations. Net profit per ton, which is recorded on pages 22-23, has followed a course similar to profit margin. It was $8.53 versus $11.81 in 1966 and a low of $6.98 in 1959. Its high point was $17.64 in 1955. Figures showing total shipments of both newsprint and pulp for the last ten years are recorded on page 6.

Sales and Market Prices

The new high in tonnage volume was mainly responsible for the 1967 increase in total dollar sales rather than increases in the market prices of our products. Our newsprint contract price was increased by $3.00 to $142.00 a ton for delivery to main port destinations in the U.S. market area we serve, effective July 1st, 1967. The increase was general by suppliers of this market.

The additional revenues we derived from the increase have already been overtaken by higher costs in all phases of our operations as shown in the table below detailing our use of sales revenue.

The market for chemical pulp softened in 1967, due to oversupply. Competitive pressures have been intense throughout the year as the result of substantial new capacity coming into operation in the face of a slackening of demand and a consequent market weakness.

Our Use of Sales Revenue

Our 1967 sales revenue reached a new high of $74.3 million versus $68.2 million in 1966 and $50.3 million in 1965. These figures are in Canadian dollars with profit from U.S. dollar exchange added and include the relatively small amounts of sales in Canadian dollars. Our use of 1967 revenue is listed below in dollars and percentages, with 1966 percentages in italic at the right. Dollars are in thousands, with 000 omitted. A condensed comparison of percentages in recent years is given in a table on page 8.

wages, salaries, benefits	$13,402	18.0%	*17.5%*
pulpwood (over 50% for wages)	21,641	29.1	*27.1*
other materials and expenses	13,460	18.1	*17.6*
freight, delivery to customers	8,154	11.0	*11.1*
income taxes	4,300	5.8	*8.0*
depreciation and depletion	7,506	10.1	*8.3*
interest charges	1,673	2.3	*2.4*
total costs and charges	$70,136	94.4%	*92.0%*
dividends declared	3,602	4.8	*5.3*
retained in the business	608	.8	*2.7*
	$74,346	100.0%	*100.0%*

Cash Flow Down

Our cash flow defined on page 24 showed a continuous increase during the years 1957 to 1965. In

SOME COMPARISONS OF 1967 RESULTS

The eight company tables below are part of our account of results obtained in 1967. They supplement the pages of text and the company charts on other pages. Further comparisons through the past ten years are provided by the summary of 41 financial items on pages 22 and 23 which also shows the figures on which our financial charts are based. A background of Industry Reference Data regarding pulp and newsprint in Canada and the state of world markets is shown on page 14.

1967 RESULTS BY QUARTERS

Dollars in thousands, 000 omitted.

quarter	total sales	operat. profit	net profit
First	$16,879	$ 4,377	$ 1,056
Second	18,250	4,618	1,072
Third	17,293	4,171	1,011
Fourth	16,801	4,345	1,071
	$69,223	$17,511	$ 4,210

Total sales are before dollar exchange; the other two items include profit from U.S. dollar exchange.

NET PER SHARE BY QUARTERS

Per share of total shares issued at end of 1967.

quarter	1967	1966	1965	1960
First	$0.29	$0.33	$0.25	$0.12
Second	0.30	0.42	0.46	0.20
Third	0.28	0.36	0.45	0.16
Fourth	0.30	0.41	0.42	0.24
	$1.17	$1.52	$1.58	$0.72

During the year we issue quarterly reports of shipments, sales, earnings and other results of our operations.

CASH FLOW TOTAL & DETAILS

	1967	1966	1965	1960
Total ($000)	$13,630	$16,562	$16,684	$ 5,967
Per share	3.78	4.60	4.63	1.66
Per ton*	27.62	35.74	47.29	20.55

*Per ton of total shipments on page 6.

USE OF SALES REVENUE

percentages	1967	1966	1965	1960
costs and taxes	94.4	92.0	88.6	92.7
dividends	4.8	5.3	7.2	5.4
retained for use in the business	0.8	2.7	4.2	1.9

Further reported on page 7.

TOTAL SALES & NEWSPRINT

Dollars in thousands, 000 omitted.

	1967	1966	1965	1958
Total sales	$69,223	$63,857	$46,872	$31,983
Newsprint*	51,102	51,459	45,176	26,417
Newsprint %	73.8	80.6	96.4	82.6

*Referred to with chart on page 6.

SALES & PROFIT PER TON

Per ton of total shipments as on page 6.

	1967	1966	1965	1960
Sales	$140.28	$137.80	$132.86	$132.33
Net profit	8.53	11.81	16.15	9.29
Profit margin*	6.1%	8.6%	12.2%	7.0%

*Net profit as percent of sales.

U.S. DOLLAR EXCHANGE PROFIT

*Loss in 1960.

($000)	1967	1966	1965	1960
Exchange profit	$5,123	$4,383	$3,434	$880*
% of total sales	7.4	6.9	7.3	2.3

SHAREHOLDERS & OWNERSHIP

*Percent of total shares issued at end of 1967.

	1967	1966	1965	1960
*Owned in Canada	93.8%	93.6%	93.7%	91.0%
No. of shareholders	6,402	6,632	6,926	5,291

1966 our cash flow of $16.6 million was slightly less than the previous year's total and our 1967 cash flow of $13.6 million showed a further decrease. The decrease in 1967 was due solely to the reduction of $3.5 million in the current year's accumulated tax reduction applicable to future years, explained in the next section. Further cash flow details are shown on page 8 and in the long term data on pages 22-23. Our cash flow of $13.6 million in 1967 consisted of the following three items: $4.2 million in total net profit; $7.5 million in combined depreciation and depletion charges and $1.9 million in our accumulated tax reduction.

Accumulated Tax Reductions

Depreciation claimed for income tax purposes is known as capital cost allowances and these allowances are entirely different from regular depreciation deducted from earnings, which is reported in paragraphs that follow.

The capital cost allowances we claim for income tax purposes are at the maximum rates allowed by the Income Tax Act and include the accelerated allowances which were applied to machinery and equipment acquired from mid 1963 to the end of 1966. A large part of our major expansion, which took place from 1964 to 1966, qualified for the accelerated allowances. Consequently, in recent years, capital cost allowances have been considerably greater than the regular depreciation deducted from our earnings and have resulted in a substantial deferment of taxes.

We point out again that regular depreciation deducted from earnings is different from capital cost allowances claimed for income tax purposes. Our deducted depreciation is determined at the maximum rates allowed by the Income Tax Act of 1962. This means that we use the 10 percent declining balance method in depreciating our mill buildings and equipment, which form by far the largest portion of our fixed assets.

In 1967 our capital cost allowances exceeded deducted depreciation by $0.9 million. However, in 1966 capital cost allowances exceeded our deducted depreciation to such extent that a loss of $2.8 million for tax purposes was created. The total of the foregoing ($3.7 million) has been deducted in determining our 1967 taxable income and resulted in deferment of $1.9 million.

The tax deferment for 1967 of $1,915,000 has been added to the $16,565,000 of tax reductions accumulated at the end of 1966 to make a total of $18,480,000 accumulated tax reductions at the end of 1967. This total is shown in our balance sheet (page 19) as deferred credit described as "accumulated tax reductions applicable to future years". This means when, as expected, our capital cost allowances in future years prove to be less than the depreciation deducted from earnings, the additional taxes thus caused will be charged against our accumulated tax reductions. The result will be that, in such future years, we shall continue to show the correct deduction of income taxes from the current annual earnings involved.

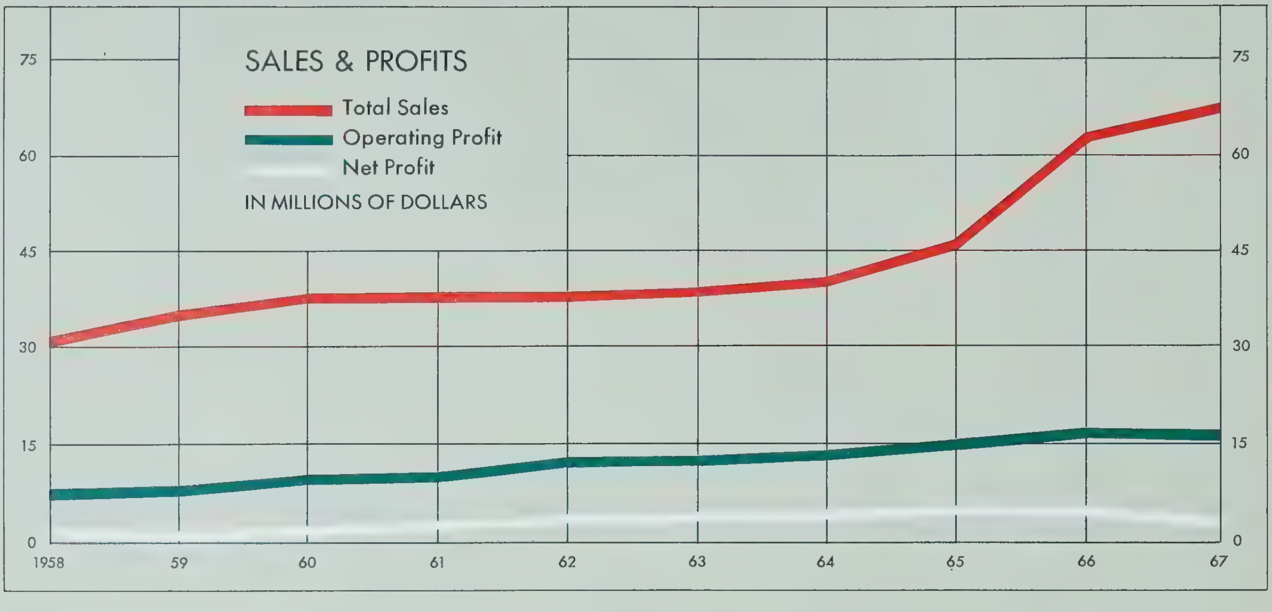
Our Method of Tax Reduction

Our method of dealing with income tax reductions, described above, is known as the deferred-credit method and we believe it gives a realistic portrayal of our earnings and income taxes. Another method is called the flow-through method, in which only the income taxes actually payable for a year are deducted from earnings. The use of this method in our case could cause wide year-to-year variations in our reported earnings as illustrated in the table below.

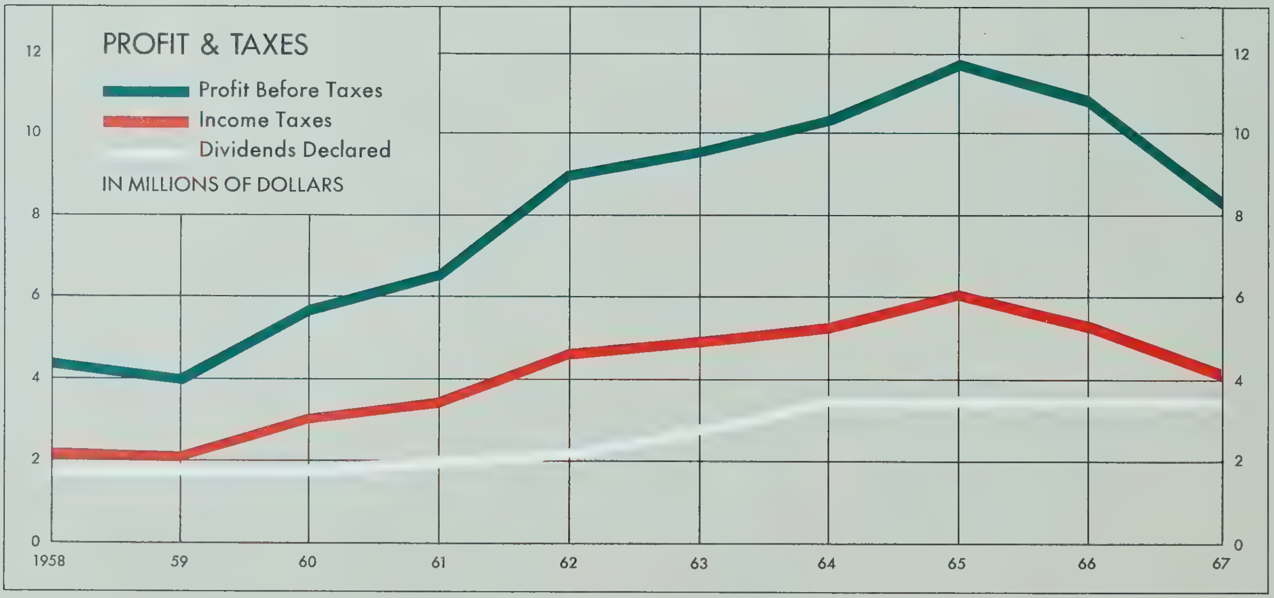
	1967	1966	1965	1964
Earnings per share on "flow-through" basis.......	$1.70	$3.03	$3.75	$2.07
Earnings per share on deferred-credit method......	$1.17	$1.52	$1.58	$1.40

Increased Depreciation and Interest

Since 1967 was the first full year following completion of the kraft mill, our depreciation deducted from earnings moved up substantially. Our depreciation amounted to $7,505,636 in 1967 versus $5,637,263 in 1966 as described earlier and shown in our profit and loss statement on page 17. Depreciation includes depletion, which is defined on page 24 and recorded for the past ten years on pages 22-23. With the kraft mill in operation our interest charges against earnings increased as anticipated and our interest expense in 1967 amounted to $1,673,167 versus $1,478,498 in 1966. Both depreciation and



Our 1967 total sales of $69.2 million reached a new high, up 8.4 percent over 1966, but operating profit of $17.5 million was down 2.1 percent from $17.9 million in 1966 and net profit of $4.2 million was down from $5.5 million or about 23 percent. Net profit was reduced by higher costs in wages and materials and also by the sharp increase in interest and depreciation charges which followed completion of our kraft pulp mill in 1966. These combined charges have more than doubled since 1965 but should diminish again in due course; they are shown in a chart on page 12.



Our 1967 profit before income taxes was $8.5 million versus $10.9 million in 1966, this reduction of over 22 percent being due to the same cost factors that affected our net profit. Income taxes consequently came down from $5.5 million in 1966 to $4.3 million in 1967 but again exceeded our total net profit as they have through all but one of the past ten years. Dividends of $3.6 million declared in 1967 continued at the level reached in 1964; they represented about 86 percent of our 1967 net profit compared with 66 percent in 1966 and 63 percent in 1965.

interest will continue on a steadily diminishing instead of a rising scale. Interest charges through the past ten years are recorded on pages 22-23.

Long Term Debt Reduced

We paid off $4,303,250 of long term debt in 1967 by redemption of bonds and debentures and also, in our 1967 current liabilities, provided for $4,323,250 of payments of principal payable during 1968. Our long term debt at the end of 1967 had thus been lowered to $25,686,250 due after 1968 as shown in our balance sheet details of bonds and debentures on page 19. Over the last three years our long term debt after deducting current maturities has been reduced by approximately $13 million.

Our above 1967 provision of $4,323,250 for redemption of principal payable in 1968 consisted of $660,000 for our 4 percent bonds, $1,051,000 for our 5 percent debentures, $1,430,000 (U.S. funds) for our 5¾ percent debentures, series B, and $1,000,000 (U.S. funds) for our 5¾ percent debentures, series C, plus $182,250 of dollar exchange on the U.S. funds involved.

In dealing with interest charges our policy has been similar to our policy regarding depreciation deducted from earnings. In 1966 we capitalized interest on financing construction of the kraft pulp mill and related facilities until the mill came into production.

Shares Issued Under Option

In 1967 we issued 80 shares at $24.50 a share under the share option plan we provided for certain executives and other employees of the company and 2,000 shares at $25.00 a share under the share options we granted to our newsprint contract customers. This brings the total number of shares issued under options at the end of 1967 to 2,603 shares. Further details on this subject are included in notes to the financial statements on page 16.

Projects Completed

Four major construction projects described in our 1966 annual report were completed during 1967. They were a revision of our newsprint finishing operation to provide automatic wrapping of newsprint rolls as shown in the photograph on page 21, expansion of our initial facilities for controlling water pollution, modification of our bark handling system and additional facilities for treatment of boiler feed water. Total capital expenditures on our properties in 1967 amounted to $3.7 million.

Water and Air Problems

As responsible citizens we have an obligation to the community to exercise as much control as possible over odors and effluent resulting from our industrial processes. To the end of 1967, we have made capital expenditures of approximately $4.2 million on our effluent and odor control systems.

Our whole program to deal with air and water problems is being carried out in full co-operation with both the Ontario Water Resources Commission and Ontario Government Department of Health. We aim to meet the objectives of both these bodies.

Labor Union Agreements

All our labor union contracts are due to expire in 1968. We will be negotiating new agreements with the mill and woods unions during the year. The present mill union contract terminates on April 30th, 1968 and the woods contract on August 31st, 1968.

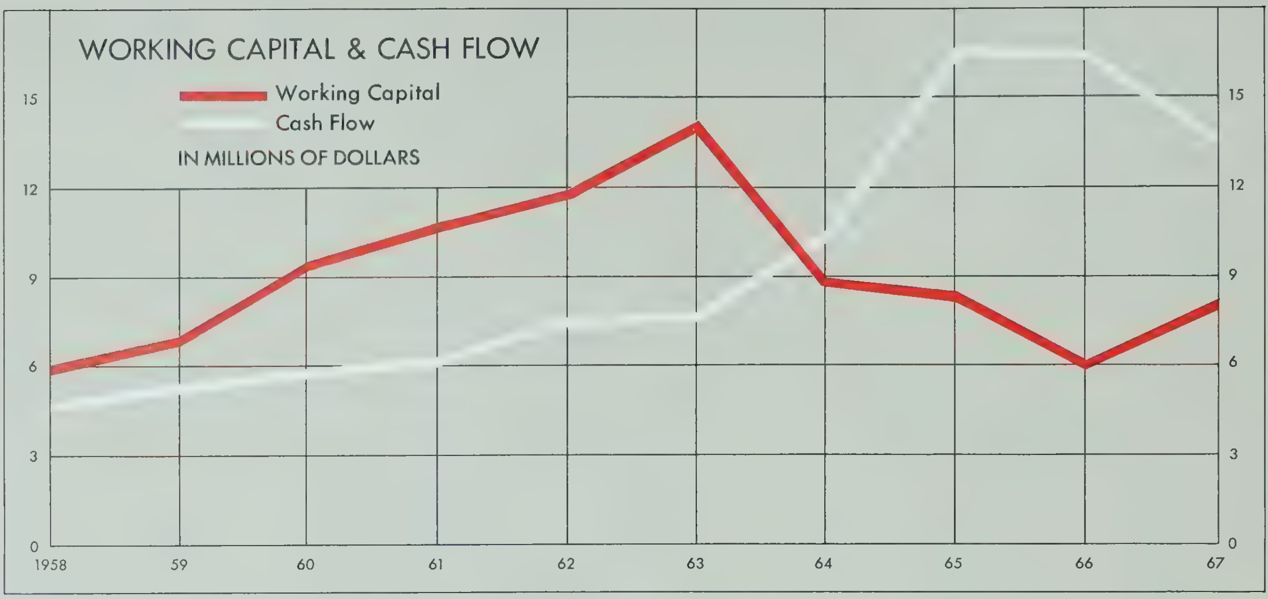
Newsprint Capacity

Capacities of newsprint mills in Canada are rated by independent statisticians on a standard formula of performance per day; annual capacities are these daily ratings multiplied by the number of workdays a mill has in a year.

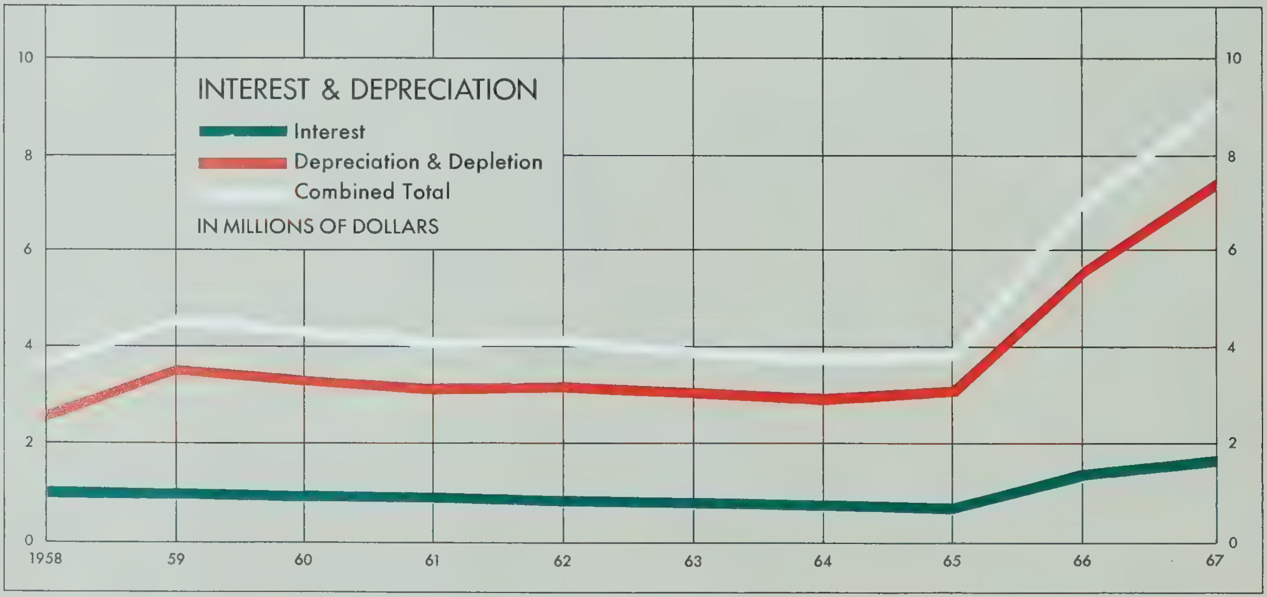
Our rated capacity of 428,868 tons is on the basis of continuous operation. Compared with our 1967 capacity rating, which was based on continuous operation starting in February, our 1968 rating shows a slight increase of 5,912 tons. If we compare our 1968 rated capacity with 1966 rated capacity of 389,914 tons the 1968 capacity shows an increase of 10 percent.

Source and Application of Funds

The Securities Act of 1966 (Ontario) which came into force on May 1, 1967, sets out the information that must be included in a company's annual report; accordingly the Consolidated Statement of Source and Application of Funds is included with the audited financial statements on page 20.



Working capital and cash flow are defined on page 24. Working capital in 1967 increased by $2.1 million, mainly because our capital expenditure in 1967 was substantially lower than in 1966 with completion of our kraft pulp mill. Our long upward trend of cash flow changed in 1967 with a total of $13.6 million versus $16.6 million in 1966. This was because our 1967 increase in accumulated tax reduction was considerably less than in 1966; details are on page 9. With the exceptions of 1966 and 1965 our 1967 cash flow was still the highest in the past ten years.



Our combined interest and depreciation charges in 1967 were at a new high of $9.2 million versus $7.1 million in 1966 and $3.9 million in 1965. The $2.1 million increase in 1967 charges meant lower income taxes but was still the largest single factor in our $1.3 million reduction of 1967 net profit. The increased charges were due to completion of our kraft pulp mill in 1966 and are a normal part of major plant expansion. In due course they can be expected to resume the downward trend that preceded 1966 with their burden on our earnings diminishing accordingly.

Woods Mechanization

We continued to move ahead with the mechanization of our forest operations in 1967. Three new mechanical harvesters were added to our mechanized harvester fleet which now comprises seven such units. We also introduced a new portable slasher which cuts tree-length logs gathered at the road's edge into eight-foot lengths and stacks the cut logs in neat piles ready for loading. The slasher is self-propelled and moves easily from one work site to another. Always on the lookout for new ways to improve productivity, in 1967 we experimented with a new type of tree-length forwarding machine and a new short wood processor known as a "Bushcombine". The mechanical forwarder can gather and carry four cords of bunched tree lengths at one time from the cutting area to a nearby loading point, while the Bushcombine cuts a tree at the stump, delimbs it, slashes it into eight-foot lengths and then assembles the cut wood in its own two-cord carrying section for loading directly onto trucks or delivery to roadside.

Regeneration and Fire Protection

Cutting and delivering pulpwood in ever-increasing amounts is only one of the challenges facing our woods department. Proper management of our forest areas requires that we expend every effort to perpetuate our wood resources through a carefully planned regeneration program. In 1965 we signed a cooperative regeneration agreement with the Ontario Department of Lands and Forests, the first such agreement ever signed in the province. In the past two years we have made steady progress in this joint undertaking. As a result of our combined efforts, in 1967 we treated 3,700 acres of cutover forest areas for regeneration by mechanical methods where it was felt that natural regeneration would be least effective. This program also resulted in the planting of some 1,200,000 new trees on our timber limits.

As well as renewing our resources, we must protect existing timber from the terrible devastation of fire. With the most up-to-date forest fire suppression facilities at their disposal, our mobile fire fighters are well prepared to meet the sudden onset of fire wherever it may occur in our forest area. In 1967, 59 fires took place in our timber limits, a 60 percent increase in the number of fires compared with our average for the past eight years. This increase was largely due to the hot dry spells in June and September which created extremely hazardous conditions. While the number of fires was up in 1967 the total area destroyed amounted to 853.20 acres, 28.6 percent of the average for the same eight year period.

Company Outlook

Long term prospects for newsprint consumption in the North Central region of the U.S., the market area we are primarily concerned with, are favorable. A report on newsprint consumption in the United States, published at the end of 1967 by the American Newspaper Publishers Association, shows that in 1966 the 2,215,917 tons of newsprint consumed in the North Central area was 28.6 percent of the total consumption by U.S. newspapers. The report states that if the present trend continues the North Central region may soon be the largest newsprint consumer in the United States.

However, over the immediate short term we face some difficulties. It is expected that the increasing capacity of the U.S. newsprint industry will continue to capture a larger share of U.S. consumption. For 1968 the prospect is that U.S. shipments to the U.S. market will again increase substantially, while Canadian shipments to that market will decline. Our own experience is likely to be similar.

We estimate that our shipments of chemical pulps will be maintained or increased moderately in 1968. We do not expect market conditions to improve materially in 1968, but it is anticipated that the unprecedented growth of productive capacity which began in 1966 will be overtaken by demand over the next few years.

Apart from tonnage volume, such imponderables as market price, dollar exchange rates, cost trends, taxes and government charges will play a vital role in determining earnings. As we look ahead we are confident that our company will maintain a strong competitive position with such factors in its favor as geographical location, quality products, the high efficiency of mill and woods operations and unsurpassed northern wood resources.

NEWSPRINT PAPER

Rated capacities of newsprint producers in Canada and other newsprint data may be obtained from reports issued by Newsprint Association of Canada, on which the six tables below are based. World totals in these tables omit nine communist countries for which reliable information is lacking and some of the 1967 figures are subject to revision by NAC.

TOTAL WORLD SUPPLY

'000 tons	1967	1966	1960	1955
World capacity	20,892	19,759	16,179	11,657
World production	18,298	18,288	14,179	11,509
Operating ratio (%)	87.6	92.6	87.6	98.7

CANADIAN PRODUCTION

'000 tons	1967	1966	1960	1955
Total capacity	9,294	8,878	7,611	6,064
Tons produced	8,051	8,419	6,739	6,191
Excess capacity	1,243	459	872	nil
Operating ratio (%)	86.6	94.8	88.5	102.1

CANADIAN PERCENTAGES

	1967	1966	1960	1955
Of world capacity	44.5	44.9	47.0	52.0
Of world excess	47.9	31.2	43.6	nil
Of world production	44.0	46.0	47.5	53.8
Of world exports	73.7	75.2	77.6	80.3

WORLD DEMAND & IMPORTS

'000 tons	1967	1966	1960	1955
Total demand	18,451	18,357	14,365	11,667
Total imports	10,098	10,430	8,194	7,315
Import % of total	54.7	56.8	57.0	62.7

CANADIAN SHIPMENTS

'000 tons	1967	1966	1960	1955
Tons to U.S.A.	6,263	6,610	5,279	5,070
To overseas markets	1,067	1,154	986	735
To Canadian buyers	638	620	487	430
Total tons shipped	7,968	8,384	6,752	6,235

U.S. SUPPLY SOURCES

'000 tons	1967	1966	1960	1955
Tons from Canada	6,263	6,610	5,279	5,070
From U.S. mills	2,523	2,339	1,954	1,374
From Europe	286	274	147	146
Total tons of supply	9,072	9,223	7,380	6,590

BLEACHED KRAFT PULP

The U.S. is by far the largest consumer of chemical pulp. The accompanying table shows that portion of U.S. supply of bleached kraft pulp which is satisfied by shipments from the three principal sources. These shipments represent the free movement of market pulp and do not include shipments between integrated buyers and sellers. Canada's share of this market pulp demand in the U.S. has more than doubled since 1955 and it is in this growth that our company is participating.

U.S. SUPPLY SOURCES

'000 tons	1967	1966	1960	1955
Tons from Canada	1,154	1,231	873	573
From U.S. mills	956	1,020	531	591
From Scandinavia	86	146	86	97
Total tons of supply	2,196	2,397	1,490	1,261

Source: Canadian Pulp & Paper Association

This is the wood unloading station for the woodroom of our kraft pulp mill. Here eight-foot logs arrive from the forest by rail car and truck, are lifted by the grapple shown in the picture and moved to the woodroom by the two conveyors at the right. The logs first enter great rotating drums where the bark is removed by tumbling and water pressure. The debarked logs are then fed lengthwise to a rotating 15-knife chipper which, within ten seconds, converts an eight-foot log into small chips. The chips are conveyed by a blower system to one of the two storage piles as described on the inside front cover. In the background above can be seen the chip storage pile and chip silo shown in the front cover picture. These can also be located in the diagram of our mill site on the inside back cover.

Notes to the Financial Statements

1. Current assets and current liabilities in U.S. funds have been restated in Canadian dollars at exchange rates in effect at December 31, 1967. Long term debt repayable in U.S. funds has been converted to Canadian dollars at the exchange rate in effect at date of issue.

2. The company has entered into lease agreements (with options to purchase) covering certain woodlands camps and equipment for periods of two to seven years. The payments under these agreements amounted in 1967 to $570,000. Payments will aggregate $723,000 in 1968 and thereafter in reducing amounts to $107,000 in 1974.

3. The company intends to claim for income tax purposes for the year 1967 capital cost allowances at the maximum allowable rates on all depreciable assets. The amount claimed will exceed the depreciation recorded in the accounts and such excess, together with the balance of the 1966 tax loss carried forward will reduce the 1967 taxable income by approximately $3,725,000. Accordingly $1,915,000 of the current year's provision for income taxes has been added to the Accumulated Tax Reduction Applicable to Future Years.

4. In 1964 the company granted to customers options to acquire, in accordance with the terms of such options, 180,621 common shares at $25.00 per share exercisable not later than December 31, 1973. To date 2,083 shares have been issued under the terms of these options.

In 1966 the company approved a share option plan and reserved 50,000 common shares of the company for the granting of options to certain executive and other employees of the company or of any subsidiary of the company. Options have been granted to acquire, under the terms of the plan, 33,405 shares at $24.50 exercisable not later than June 1st, 1975. To date 520 shares have been issued under the terms of these options.

5. Declaration of dividends on common shares is restricted under the provisions of the Trust Deeds securing the long term debt. These provisions require that after such dividend payments the net current assets will be an amount in excess of $5,000,000 and earned surplus will be an amount in excess of $7,500,000. The net current assets as defined are before the deduction of any current maturities on long term debt.

6. The total remuneration received by the directors and senior officers of the company amounted to $406,800 for the year 1967.

7. The amount charged against earnings in 1967 in regard to the employees pension plan includes payments on account of past service costs resulting from a retroactive increase in benefits. These past service pension costs are being funded over a period not exceeding seventeen years. Based on the report, prepared by the company's underwriters, the liability at December 31, 1967 for unfunded pension benefits is estimated at $1,200,000. Contributions charged to income in respect of such past service costs were $100,000 in 1967.

Auditors' Report to the Shareholders

To the Shareholders of The Great Lakes Paper Company, Limited

We have examined the consolidated balance sheet of The Great Lakes Paper Company, Limited and its subsidiaries as at December 31, 1967 and the consolidated statements of profit and loss and earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

TORONTO, ONTARIO, January 26, 1968.

Consolidated Statement of Profit & Loss and Earned Surplus

	1967	1966
Total sales	$69,222,707	$63,857,287
U.S. dollar exchange premium	5,122,805	4,382,684
	$74,345,512	$68,239,971
Cost of sales and delivery expense to customers	$55,041,247	$48,834,973
Selling and administrative expenses	1,739,387	1,464,085
	$56,780,634	$50,299,058
Profit from operations	$17,564,878	$17,940,913
Other income	177,550	153,825
	$17,742,428	$18,094,738
Interest on long term debt	$ 1,673,167	$ 1,478,498
Depreciation and depletion	7,505,636	5,637,263
Directors' fees	53,800	54,600
	$ 9,232,603	$ 7,170,361
Profit before provision for income taxes	$ 8,509,825	$10,924,377
Provision for income taxes—current	$ 2,385,000	$ —
deferred (Note 3)	1,915,000	5,450,000
	$ 4,300,000	$ 5,450,000
NET PROFIT for year	$ 4,209,825	$ 5,474,377
Earned surplus at beginning of year	24,854,594	22,980,521
	$29,064,419	$28,454,898
Dividends declared on common shares	3,601,701	3,600,304
EARNED SURPLUS at end of year	$25,462,718	$24,854,594

Consolidated Balance

ASSETS	1967	1966
Current Assets		
Cash	$ 77,476	$ 79,592
Accounts receivable	8,959,581	9,230,715
Income taxes recoverable	—	1,655,000
Inventories at cost:		
Finished goods	844,578	479,578
Stores, pulpwood and other raw materials	6,427,981	6,826,189
Advances and expenditure on pulpwood operations	4,191,481	4,573,700
Prepaid insurance and other expenses	154,599	235,485
	$ 20,655,696	$ 23,080,259
Special Refundable Federal Tax	$ 491,042	$ 365,000
Fixed Assets—at values placed thereon at the inception of the company with subsequent additions at cost:		
Land, buildings, machinery, woodlands improvements and equipment	$118,655,899	$115,268,838
Accumulated depreciation	55,875,814	48,724,029
	$ 62,780,085	$ 66,544,809
Woodlands under lease	$ 3,987,347	$ 4,013,443
Accumulated depletion	3,234,895	3,097,653
	$ 752,452	$ 915,790
Signed on behalf of the Board:	$ 63,532,537	$ 67,460,599
C. J. W. Fox, *Director* R. G. Meech, *Director*	$ 84,679,275	$ 90,905,858

eet at December 31st

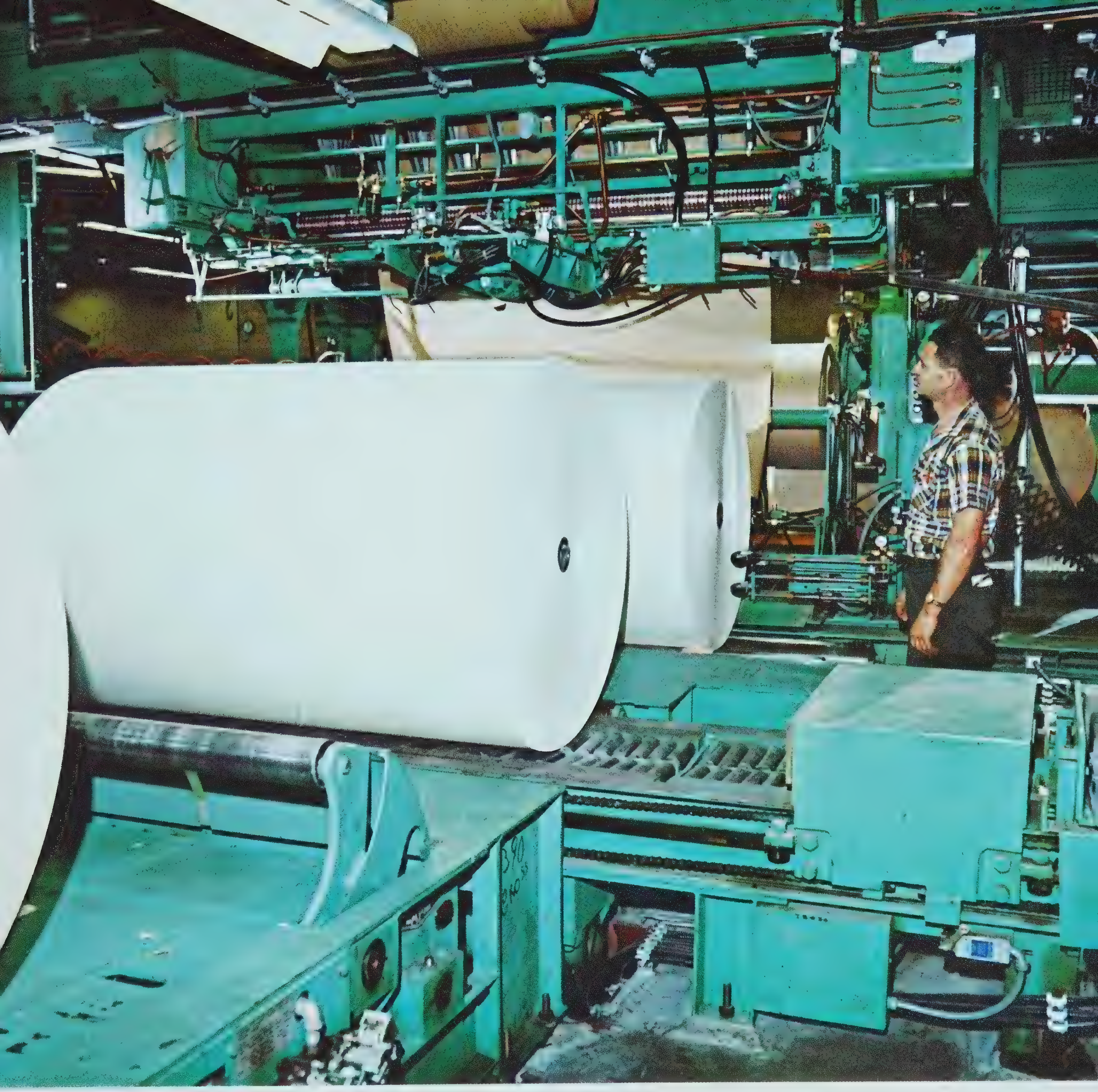
LIABILITIES	1967	1966
Current Liabilities		
Bank indebtedness	$ 1,000,000	$ 4,500,000
Accounts payable and accrued charges	2,834,364	5,570,506
Income and other taxes payable	3,427,227	1,690,022
Dividend payable	900,651	900,131
Current maturities on long term debt	4,323,250	4,303,250
	$12,485,492	$16,963,909
Long Term Debt		
First Mortgage Bonds, Series "A"		
4% sinking fund bonds maturing 1975	$ 8,930,000	$ 9,570,000
Debentures		
5% sinking fund debentures maturing 1976	$ 4,804,000	$ 5,855,000
5¾% serial debentures, Series "B" maturing 1968-1972 ($7,140,000 U.S. funds)	7,675,500	9,212,750
5¾% serial debentures, Series "C" maturing 1968-1975 ($8,000,000 U.S. funds)	8,600,000	9,675,000
	$21,079,500	$24,742,750
	$30,009,500	$34,312,750
Current maturities	4,323,250	4,303,250
	$25,686,250	$30,009,500
Accumulated Tax Reductions applicable to future years (Note 3)	$18,480,000	$16,565,000

SHAREHOLDERS' EQUITY

	1967	1966
Common shares without nominal or par value (Note 4)		
Authorized 4,500,000 shares		
Issued at beginning of year 3,600,523 shares	$ 2,512,855	$ 2,502,075
Issued during year for cash 2,080 shares	51,960	10,780
Issued at end of year 3,602,603 shares	$ 2,564,815	$ 2,512,855
Earned Surplus	25,462,718	24,854,594
	$28,027,533	$27,367,449
	$84,679,275	$90,905,858

Consolidated Statement of Source and Application of Funds

	1967	1966
SOURCE OF FUNDS		
Net profit as reported on page 17	$ 4,209,825	$ 5,474,377
Charges not requiring an outlay of funds		
Depreciation and depletion	7,505,636	5,637,263
Increase in accumulated tax reductions	1,915,000	5,450,000
FUNDS FROM OPERATIONS	$13,630,461	$16,561,640
Other sources		
Balance of proceeds of debenture issue	$ —	$ 2,687,500
Exercise of share options	51,960	10,780
Sale of fixed assets	93,816	184,119
	$13,776,237	$19,444,039
APPLICATION OF FUNDS		
Expenditures on fixed assets	$ 3,671,390	$13,558,203
Current maturities of long term debt	4,323,250	4,303,250
Dividends declared	3,601,701	3,600,304
Special refundable federal tax	126,042	365,000
	$11,722,383	$21,826,757
INCREASE (DECREASE) IN WORKING CAPITAL	$ 2,053,854	$ (2,382,718)
WORKING CAPITAL AT BEGINNING OF YEAR	6,116,350	8,499,068
WORKING CAPITAL AT END OF YEAR	$ 8,170,204	$ 6,116,350



Here you see finished rolls of our newsprint paper on their way to being wrapped for shipment to customers. These are typical rolls: 59 inches wide, 40 inches in diameter, weighing 1,800 pounds. One such roll contains over 6 miles of paper and makes about 125,000 ordinary newspaper pages. We now wrap newsprint rolls automatically instead of by hand, in a $1.3 million plant opened in 1967. This picture shows the heavy kraft paper wrapper coming down onto the second roll. Then protective ends are added and the wrapped rolls are conveyed to another part of the plant for automatic weighing and labelling of specifications and destination before moving to rail car, ship or storage. The automatic process is superior to the manual method in giving tighter wrapping and better protection against possible damage in transit.

FINANCIAL SUMMARY: LAST TEN YEARS

Except as indicated dollars are in thousands with 000 omitted.

	1967	1966	1965	1964	1963
SALES & EARNINGS					
Total sales, as defined on page 24	69,223	63,857	46,872	41,150	39,195
Newsprint percentage of above total sales	73.8	80.6	96.4	95.9	94.6
Kraft pulp percentage of above total sales	23.9	17.8	—	—	—
Sulphite pulp percentage of above total sales	2.3	1.6	3.6	4.1	5.4
Operating profit, as defined on page 24	17,511	17,886	15,746	14,068	13,523
U.S. dollar exchange profit or loss*	5,123	4,383	3,434	2,986	2,903
Interest charges on long term debt	1,673	1,478	774	821	863
Depreciation and depletion charges	7,506	5,637	3,167	3,032	3,131
Profit before providing for income taxes	8,510	10,924	11,863	10,417	9,672
Provision for income taxes, explained on page 9	4,300	5,450	6,165	5,370	5,000
Net profit, total amount	4,210	5,474	5,698	5,047	4,672
Percentage up or down* from previous year	23.1*	3.9*	12.9	8.0	7.3
Net profit per common share; see note below	1.17	1.52	1.58	1.40	1.30
Net profit per ton of total shipments; tons on page 6	8.53	11.81	16.15	16.13	15.74
Preferred dividends declared	nil	nil	nil	nil	nil
Common dividends declared, total amount	3,602	3,600	3,600	3,600	2,880
Dividends per common share; in cents	100	100	100	100	80
Dividend percentage of earnings per share	86	66	63	71	62
ASSETS & LIABILITIES					
Current assets, at year-end	20,655	23,080	19,734	14,855	20,248
Current liabilities, at year-end	12,485	16,964	11,235	5,879	6,015
Ratio of above assets to liabilities	1.6	1.4	1.8	2.5	3.4
Working capital, as defined on page 24	8,170	6,116	8,499	8,976	14,233
Inventories at cost, described in balance sheets	11,464	11,879	9,308	7,262	7,236
Annual expenditures on properties	3,671	13,558	28,093	11,115	1,767
Fixed assets, as described in balance sheets	118,656	115,269	102,419	74,653	63,846
Long term debt, at year-end	25,686	30,009	34,313	38,596	18,138
Above debt as percentage of capitalization	47.8	52.3	57.4	62.3	45.3
Accumulated tax reduction, explained on page 9	18,480	16,565	11,115	3,295	873
Accumulated depreciation and depletion	59,111	51,822	46,734	43,921	41,224
Earned surplus, at year-end; defined on page 24	25,463	24,855	22,981	20,883	19,436
EQUITY & OTHER DATA					
Common shares issued; see note below	3,602,603	3,600,523	3,600,083	3,600,000	3,600,000
Number of common shareholders, at year-end	6,402	6,632	6,926	6,340	6,295
Percentage of shares held in Canada, at year-end	93.8	93.6	93.7	92.9	93.3
Shareholders' equity, total, defined on page 24	28,028	27,367	25,483	23,383	21,936
Shareholders' equity per common share	7.78	7.60	7.08	6.50	6.09
Net profit percentage return on above equity	15.0	20.0	22.4	21.6	21.3
Net profit percentage return on total sales	6.1	8.6	12.2	12.3	11.9
Total cash flow, as defined on page 24	13,630	16,562	16,684	10,501	7,804
Cash flow per common share	3.78	4.60	4.63	2.92	2.17
Earnings retained in the business	608	1,874	2,098	1,447	1,792
Number of employees on payroll, at year-end	2,590	3,077	2,406	2,100	1,890

All figures per share are on 3,602,603 shares issued up to the end of 1967 out of 4,500,000 authorized.

Production and shipments are summarized on page 6.

1962	1961	1960	1959	1958
38,360	38,269	38,409	35,841	31,983
94.3	94	93.8	88.5	82.6
—	—	—	—	—
5.7	6	6.2	11.5	17.4
13,186	10,730	10,181	8,868	8,320
2,598	674	880*	1,432*	908*
913	959	1,008	1,053	1,097
3,285	3,208	3,389	3,606	2,677
9,086	6,645	5,822	4,100	4,461
4,730	3,585	3,125	2,200	2,275
4,356	3,060	2,697	1,900	2,186
42.4	13.5	41.9	13.1*	1.1
1.21	.84	.72	.49	.57
14.98	10.51	9.29	6.98	8.99
nil	nil	120	120	120
2,340	2,100	1,920	1,920	1,920
65	58	53	53	53
54	69	74	108.8	93
18,240	16,947	15,480	11,992	14,390
6,260	6,107	5,927	4,928	8,348
2.9	2.8	2.6	2.4	1.7
11,980	10,840	9,553	7,064	6,042
8,028	8,732	8,027	7,318	10,337
3,079	2,133	601	1,318	5,808
62,818	60,116	58,102	57,583	56,557
19,180	20,222	21,264	22,306	23,348
48.8	51.4	53.9	56.1	57.0
735	775	775	900	1,025
38,858	35,976	32,854	29,511	26,182
17,643	15,628	14,668	13,954	14,072
3,600,000	3,600,000	3,600,000	3,600,000	3,600,000
6,077	5,834	5,291	5,392	5,800
92.7	91.8	91.0	91.1	90.7
20,143	18,128	17,168	16,454	16,572
5.60	5.04	4.77	4.57	4.60
21.6	16.9	15.7	11.5	13.2
11.4	8	7	5.3	6.8
7,641	6,268	5,967	5,386	4,743
2.12	1.74	1.66	1.50	1.32
2,016	960	714	—119	157
1,873	1,687	1,756	1,877	1,680

Terms used in this report are defined on page 24.

NOTES & COMMENT

The Great Lakes Paper Company, Limited was incorporated under The Companies Act (Ontario) in 1936.

Total net profit is as recorded in annual reports. Net per common share in 1958-1960 inclusive is after deducting preference dividends paid in those years as shown, the last of the preference shares (Class B) being cancelled as of December 31st, 1960.

Net profit and dividends per common share are shown to the nearest cent on the shares now issued. Dividends on common shares began in 1947 and have since been paid each quarter. They have been advanced from an annual rate of 53 cents per share in 1960 to $1.00 starting in 1964.

Changes in our working capital since 1958 reflect bond and debenture issues and expenditures on our major 1955-1958 newsprint mill expansion program and our further expansion in our kraft pulp mill and other projects undertaken in 1964.

Our accumulated tax reduction of $18.5 million at the end of 1967 is explained in the section dealing with capital cost allowances on page 9.

Long term debt since 1958 is after deducting sinking fund instalments payable during the following year but provided for during the current year, as shown on page 19.

Glossary of Terms in This Report

TOTAL SALES: Total amount we obtain from the sale of our products before deducting costs of delivery to customers and before dollar exchange.

DOLLAR EXCHANGE: Conversion of U.S. dollars, which we receive for most of our sales, into Canadian dollars. Results in a profit when the Canadian dollar is at a discount in relation to the U.S. dollar, as now, and a loss when the Canadian dollar is at a premium.

OPERATING PROFIT: Profit we get from manufacture and sale of our products after deducting wages, cost of materials, cost of delivery and all other costs except interest charges, depreciation and depletion, and taxes. Includes loss or profit from dollar exchange. Applies to operations only; does not include investment or other form of income.

INTEREST CHARGES: Interest we pay on bonds and debentures we have issued to borrow money, similar to interest on a mortgage.

DEPRECIATION: A portion of the original cost of our fixed assets (defined below) such as plant and equipment, which we write off each year as a deduction from profit; our method of application and details of our policy are fully explained in this report.

DEPLETION: Similar to depreciation but applies to our usage of pulpwood from our licenced forest areas rather than to plant and equipment; maximum amount fixed by income tax regulations.

NET PROFIT: Our total income (operating profit plus all other income as defined above) less interest charges, depreciation and depletion, directors' fees, taxes and all other related costs; the net income we have at end of a year to pay dividends or retain for use in our business.

CASH FLOW: Total cash generated by operations in a year. Consists of net profit available for common dividends plus amount of depreciation and depletion charged against operations for the current year and plus charges, if any, for special reserves.

EARNED SURPLUS: Accumulated total of our annual net profits since the start of the company (1936) less dividends to shareholders during the same period and after taking into account capital gains or losses such as bond and debenture issue expenses.

ASSETS: Everything we own, consisting of two main classes: current assets and fixed assets.

CURRENT ASSETS: Cash and all assets we can normally expect, within a year, to convert into cash or to consume in the process of earning income.

FIXED ASSETS: Long term assets, such as land, buildings, plant and equipment, which we hold for earning income rather than for sale or conversion.

LIABILITIES: Everything we owe, such as bills, taxes and borrowed money; consist of two main classes: current liabilities and long term debt.

CURRENT LIABILITIES: Amounts we owe due for payment within one year; usually consist of bills for services and materials, accrued charges, sinking fund instalments, taxes and interest charges; in general, means short term debt.

ACCRUED CHARGES: Amounts we owe for payment later, such as wages and other charges that accumulate until their due date.

LONG TERM DEBT: Amounts we owe from borrowing money by issues of bonds and debentures which, ordinarily, must be repaid within the term or period of each issue. Our longest present terms are for bonds due 1975 and debentures due 1976.

SINKING FUND: Cash amounts we pay to independent trustees of our bond and debenture issues, as stipulated in the trust deeds of these issues, to provide annual instalments for their redemption. Long term debt is reduced accordingly, like reducing a mortgage.

WORKING CAPITAL: Amount by which our current assets exceed our current liabilities, both as defined above. This is a measure of our working or operating resources.

BALANCE SHEET: Statement of our financial position at a year-end showing what we possess (assets of all kinds) versus what we owe (liabilities of all kinds) and shareholders' equity; set forth in accordance with Ontario Corporations Act. The word "consolidated" means that all subsidiaries are included to show position of our enterprise as a whole.

SHAREHOLDERS' EQUITY: Value of the shareholders' ownership or interest in the company, shown on our balance sheet. Consists of share capital plus earned surplus and is the amount by which our total assets exceed our liabilities.

For further definitions and information we recommend publications issued by the Canadian Institute of Chartered Accountants and by The Investment Dealers' Association of Canada.

The above diagram shows our present mills and supporting facilities at Fort William, Ontario. Buildings and other structures are in green, wood storage piles in yellow, railway lines and similar items in white. The area in the diagram amounts to about one-half of our 300 acres of mill site property so we have substantial scope available for further plant extension. The two principal items of plant are our newsprint mill, the largest single newsprint mill in eastern Canada, and our kraft pulp mill which began operation early in 1966. Our newsprint capacity in 1967 was rated at 422,956 tons a year and our kraft pulp mill has a capacity of 200,000 tons of bleached pulp a year. In total we have 60 buildings with a floor area of 21 acres and our wood storage piles can contain up to 190,000 cords of pulpwood in logs plus 80,000 cords of chips, the latter being supply for our kraft pulp mill. We have 16 miles of railway track and 1,150 feet of shipping dock. On the diagram one can locate the chip storage pile and the chip silo shown in the front cover picture and described on the inside front cover. The map on the back cover shows the location of our mill site and adjoining forest areas in relation to our facilities for delivery of our products to customers by rail and by water.

GREAT LAKES PAPER
CANADA

The red block on the above map marks our mill site at Fort William, Ontario and our adjoining 13,700 square miles of forest areas which we hold under Ontario Government licence. In these areas we harvest our main supply of unsurpassed northern pulpwood which we bring to our mill by rail and by truck. We produce for sale newsprint paper and chemical pulps, both bleached and unbleached. Our mill location gives us ideal facilities for delivery of these products to customers. We are on two main transcontinental railway lines and our shipping dock on the Kaministikwia River gives us direct access to the St. Lawrence Seaway. From our dock we can deliver by water to all ports of the five Great Lakes, to U.S. Atlantic coast ports and to overseas destinations. We have shipped directly from our dock to Europe and to Australia. Our mill site is described on the inside of this cover.

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THE GREAT LAKES PAPER COMPANY LIMITED

Quarterly Report to the Shareholders

FIRST SIX MONTHS: 1967 vs 1966

record

TOTAL SALES in the first six months of 1967 were at a new high of $35.1 million versus $28.8 million in the same period of 1966, an increase of 22.2 percent. These totals in each case are before adding U.S. dollar exchange premium which produced a profit of $2.7 million in the six months, an increase of $743,889 or 37.7 percent over the same period of 1966 due to our higher sales volume. Profit from operations increased by 13 percent from $7.9 million in 1966 to $9 million in 1967. Net profit of $2,127,882 in the six months was down 21.1 percent from $2,698,461 in the same period of 1966.

ADVERSE FACTORS were increases in depreciation and interest charges. These charges in the six months showed a combined increase of $2.3 million or 93.9 percent. Other adverse factors were wage increases and substantial general increases in the costs of materials and services.

FAVORABLE FACTORS were the new highs in total dollar sales referred to above, and in tons shipped to customers. Chemical pulp shipments were up from 25,126 to 64,034 tons. Bleached kraft pulp shipments in 1966 did not commence until May. Newsprint shipments of 187,472 tons showed little change.

DIVIDENDS are being paid at the annual rate of $1.00 a share. In 1967 to date three quarterly dividends of 25 cents a share have been paid, these being No. 77 on January 3rd, No. 78 on April 1st and No. 79 on July 3rd.

Continued on page 4

GREAT LAKES PAPER CANADA

SUMMARY OF RESULTS

All Figures Subject to Audit and Adjustment at Year-End

TONS SHIPPED TO CUSTOMERS: newsprint. . . . .
chemical pulps. . . . .
total tons. . . . .

SALES. . . . .

PROFIT FROM U.S. DOLLAR EXCHANGE. . . . .

COST OF SALES AND DELIVERY EXPENSE. . . . .

SELLING AND ADMINISTRATIVE EXPENSE. . . . .

OPERATING PROFIT. . . . .

MISCELLANEOUS INCOME. . . . .

BOND AND DEBENTURE INTEREST. . . . .

PROVISION FOR DEPRECIATION. . . . .

PROFIT BEFORE TAXES. . . . .

PROVISION FOR INCOME TAXES. . . . .

NET PROFIT: TOTAL AMOUNT. . . . .
PER SHARE. . . . .

CASH FLOW (including profit, depreciation and deferred incom
taxes). . . . .
PER SHARE. . . . .

FIXED ASSETS AT JUNE 30TH
value of mill, equipment, properties, etc. . . . .

ACCUMULATED DEPRECIATION. . . . .

SECOND QUARTER 3 Months: April, May, June		THE YEAR TO DATE 6 Months Ended June 30th	
1967	1966	1967	1966
100,453	102,099	187,472	189,289
30,101	21,825	64,034	25,126
130,554	123,924	251,506	214,415
$18,250,660	$16,833,160	$35,129,445	$28,757,668
1,339,433	1,134,170	2,717,433	1,973,544
19,590,093	17,967,330	37,846,878	30,731,212
14,467,924	12,936,079	27,872,816	21,978,953
504,385	465,298	979,553	795,697
14,972,309	13,401,377	28,852,369	22,774,650
4,617,784	4,565,953	8,994,509	7,956,562
9,096	42,534	149,781	112,745
4,626,880	4,608,487	9,144,290	8,069,307
430,052	352,959	871,408	535,846
1,950,000	1,145,000	3,900,000	1,925,000
2,380,052	1,497,959	4,771,408	2,460,846
2,246,828	3,110,528	4,372,882	5,608,461
1,175,000	1,610,000	2,245,000	2,910,000
1,071,828	1,500,528	2,127,882	2,698,461
$0.30	$0.42	$0.59	$0.75
....	....	8,272,882	7,533,461
....	....	$2.30	$2.09
....	....	117,339,940	111,477,834
....	....	52,568,135	45,682,461

Continued from page 1

THE SECURITIES ACT 1966 (Ontàrio) which came into force on May 1st 1967 sets out the information that must be included in an interim financial statement for a six month period. In addition to the Summary of Results on the inside pages the following is the required statement of Source and Application of Funds:

	1967	1966
SOURCE OF FUNDS:		
Net profit	$2,127,882	$ 2,698,461
Depreciation	3,900,000	1,925,000
Increase in deferred income taxes	2,245,000	2,910,000
Proceeds of debenture issue		2,687,500
Exercise of share options	39,460	4,778
Sale of fixed assets	15,755	8,857
	8,328,097	10,234,596
APPLICATION OF FUNDS:		
Expenditures on fixed assets	2,142,751	9,087,354
Provision for sinking fund	1,051,000	1,051,000
Dividends declared	1,800,399	1,800,042
Special refundable federal tax	126,042	110,000
	5,120,192	12,048,396
INCREASE OR DECREASE* IN WORKING CAPITAL	3,207,905	1,813,800*
WORKING CAPITAL AT JUNE 30TH	9,324,255	6,685,268

On behalf of the Board,

C. J. W. FOX, *president*

FORT WILLIAM, ONTARIO, AUGUST 2ND, 1967.